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As I see

RESIDENTIAL VALUES DURING THE NEXT 15 YEARS

HISTORY is interesting, but money cannot be made on events that are past. Our clients are interested primarily not in what has happened but what may happen in the future. If real estate economics is to be more than a theoretical study, it must attempt to predict the future, difficult as that job is. In this bulletin I am attempting to project for the next 15 years the figures given last month* on the selling prices of residences from 1925 to 1949. In this projection I am showing what I consider to be the most pessimistic probability, with a considerable chance that selling prices during this period will average higher than the projections I have given in the table. The mortgage lender, however, must always consider in making his loans the worst possibility that seems reasonable, and for this reason the projection is extremely conservative.

On the back page of this report is a photograph of a three-dimensional chart illustrating the fluctuations in selling price from 1925 to the present, with this forecast to 1964. The horizontal scale on this chart shows the years from 1925 to 1964. The vertical scale is in thousands of dollars and the scale from the back of the chart to the front is in age of buildings. The darker steps on the chart indicate 5-year intervals in age. The darker area through the center of the chart indicates the period of scarcity premium, and the small dark areas toward either end, at the bottom of the valleys, the periods of surplus discount.

Probably the best way to illustrate the use of the table and chart in this report is to take some general examples. The first column in the table headed "Original Cost" shows our forecast for the next 15 years on the cost of building this building. If we are right, the cost will decline slightly in 1950, go up slightly in 1952, drop to a low in 1956 and reach a point in 1964 \$1,000 higher than the 1949 cost.

Cost and selling price, however, are not the same and the column headed "Age in Years - 0" gives the expected selling price of a new building. It will be noticed that in 1954, 1955, 1956, 1957 and 1958 the expected selling price is below the cost. This would indicate that in those years relatively little speculative building will be done. The building which will take place will be on contract by persons who want an individually designed home and are willing to pay for it an amount greater than the average selling price of existing buildings. This was also the case in a number of the years of the 1930's and in some of these years residential building dropped

*"As I See The Fluctuations in Residential Selling Prices," October 28, 1949, Number 49.

A FORECAST OF AVERAGE OF A STANDARD SIX-ROOM FRAME RESIDENCE

	Original Cost	Age in years:										
		0	1	2	3	4	5	6	7	8	9	10
1949	\$16,400	\$17,548	\$17,466	\$17,384	\$17,220	\$16,992	\$16,482	\$16,072	\$15,662	\$15,252	\$14,842	\$14,432
1950	15,900	16,218	16,059	15,821	15,582	15,264	15,105	14,787	14,469	14,151	13,833	13,515
1951	15,900	16,900	15,821	15,662	15,503	15,344	15,105	14,787	14,469	14,151	13,874	13,356
1952	16,200	16,200	15,779	15,358	14,938	14,515	14,094	13,672	13,251	12,830	12,409	12,356
1953	15,800	15,800	15,389	14,978	14,568	14,157	13,746	13,335	12,924	12,513	12,102	12,482
1954	14,300	14,014	13,728	13,514	13,299	13,085	12,870	12,641	12,412	12,184	11,955	11,726
1955	13,200	12,804	12,672	12,474	12,276	12,078	11,880	11,669	11,458	11,246	11,035	10,824
1956	12,750	12,113	11,921	11,730	11,539	11,348	11,220	11,016	10,812	10,608	10,404	10,200
1957	13,600	12,376	12,308	12,104	11,968	11,832	11,696	11,478	11,261	11,043	10,826	10,608
1958	14,000	13,720	13,440	13,230	13,020	12,810	12,670	12,432	12,194	11,956	11,718	11,480
1959	14,400	14,400	14,184	13,968	13,680	13,392	13,104	12,816	12,528	12,240	12,067	11,808
1960	15,400	15,400	15,169	14,938	14,630	14,322	14,014	13,737	13,460	13,182	12,905	12,628
1961	16,000	16,000	15,780	15,520	15,200	14,880	14,560	14,432	13,984	13,696	13,408	13,120
1962	16,600	16,600	16,351	16,102	15,770	15,438	15,106	14,973	14,508	14,210	13,911	13,612
1963	17,100	17,100	16,844	16,587	16,245	15,903	15,561	15,424	14,945	14,638	14,330	14,022
1964	17,400	17,400	17,139	16,878	16,530	16,182	15,834	15,595	15,208	14,894	14,581	14,268
	Age in years:											
	23	24	25	26	27	28	29	30	31	32	33	34
1949	\$10,791	\$10,562	\$10,332	\$10,168	\$10,004	\$ 9,840	\$ 9,676	\$ 9,512	\$ 9,348	\$ 9,184	\$ 9,020	\$ 8,856
1950	10,335	10,095	9,858	9,699	9,540	9,381	9,222	9,063	8,904	8,745	8,586	8,427
1951	9,985	9,763	9,540	9,302	9,143	8,984	8,825	8,666	8,522	8,379	8,236	8,093
1952	9,785	9,590	9,396	9,234	9,072	8,910	8,748	8,586	8,456	8,327	8,197	8,068
1953	9,583	9,354	9,164	9,006	8,848	8,690	8,532	8,374	8,248	8,121	7,995	7,868
1954	8,980	8,780	8,580	8,437	8,294	8,151	8,008	7,865	7,722	7,579	7,436	7,293
1955	8,290	8,105	7,920	7,788	7,656	7,524	7,392	7,260	7,128	6,996	6,864	6,732
1956	7,829	7,678	7,523	7,370	7,217	7,064	6,911	6,758	6,617	6,477	6,337	6,197
1957	8,350	8,187	8,024	7,861	7,698	7,534	7,371	7,208	7,058	6,909	6,759	6,610
1958	8,792	8,596	8,400	8,260	8,120	7,980	7,840	7,700	7,560	7,420	7,280	7,140
1959	9,043	8,842	8,640	8,496	8,352	8,208	8,064	7,920	7,776	7,632	7,488	7,344
1960	9,671	9,456	9,240	9,086	8,932	8,778	8,624	8,470	8,316	8,162	8,008	7,854
1961	10,048	9,824	9,600	9,440	9,280	9,120	8,960	8,800	8,640	8,480	8,320	8,160
1962	10,525	10,182	9,960	9,794	9,628	9,462	9,296	9,130	8,964	8,798	8,632	8,466
1963	10,739	10,499	10,260	10,089	9,918	9,747	9,576	9,405	9,234	9,063	8,892	8,721
1964	10,927	10,684	10,440	10,266	10,092	9,918	9,744	9,570	9,396	9,222	9,048	8,874
	Age in years:											
	47	48	49	50	51	52	53	54	55	56	57	58
1949	\$ 7,183	\$ 7,005	\$ 6,986	\$ 6,888	\$ 6,822	\$ 6,757	\$ 6,691	\$ 6,626	\$ 6,560	\$ 6,494	\$ 6,429	\$ 6,363
1950	7,076	6,900	6,917	6,837	6,773	6,710	6,646	6,583	6,519	6,471	6,424	6,376
1951	6,710	6,646	6,583	6,519	6,455	6,392	6,328	6,265	6,201	6,137	6,074	6,010
1952	6,448	6,380	6,353	6,156	6,107	6,059	6,010	5,962	5,913	5,864	5,816	5,767
1953	6,288	6,194	6,099	6,004	5,957	5,909	5,862	5,814	5,767	5,720	5,672	5,625
1954	5,691	5,606	5,520	5,434	5,377	5,320	5,262	5,205	5,148	5,091	5,034	4,976
1955	5,254	5,174	5,095	5,016	4,963	4,910	4,858	4,805	4,752	4,699	4,646	4,594
1956	4,641	4,539	4,437	4,335	4,233	4,131	4,029	3,927	3,825	3,749	3,672	3,596
1957	4,950	4,842	4,733	4,624	4,583	4,434	4,338	4,243	4,148	4,066	3,985	3,903
1958	5,272	5,188	5,104	5,020	5,264	5,208	5,152	5,090	5,040	4,984	4,928	4,872
1959	5,731	5,645	5,558	5,472	5,414	5,357	5,299	5,242	5,184	5,126	5,069	5,011
1960	6,129	6,037	5,944	5,852	5,790	5,729	5,667	5,606	5,544	5,482	5,421	5,359
1961	6,388	6,272	6,176	6,080	6,016	5,952	5,888	5,824	5,760	5,696	5,632	5,568
1962	6,607	6,507	6,408	6,308	6,242	6,175	6,109	6,042	5,976	5,910	5,843	5,777
1963	6,806	6,703	6,601	6,498	6,430	6,361	6,293	6,224	6,156	6,088	6,019	5,951
1964	6,925	6,821	6,716	6,612	6,542	6,473	6,403	6,334	6,264	6,194	6,125	6,056

to one-tenth of the volume of the peak of the building boom of the 1920's.

Let us take a specific example. Suppose in 1949 we are dealing with a typical building which is five years old. The building used as an example in our table would sell on the average for \$16,482. At the bottom of the next dip in 1956 this building will be 7 years older, or will be 12 years old. By referring to the table, it will be noticed that a 12-year old building in 1956 is forecast with a selling price of \$9,843. This is a drop of approximately 40%, a portion of which is the disappearance of scarcity premium and the substitution of surplus discount. The building, however, will not stay at this level. By 1964 the building will be 20 years old and according to our table should have an average selling price of \$11,658. This is an increase of approximately 18-1/2% from the low, in spite of the increased physical deterioration and obsolescence. The 1964 selling price is approximately 71% of the present price, in spite of the fact that 15 years' additional depreciation is being subtracted from the value of the building.

These figures can be applied on a percentage basis to any similar single-family residence of approximately the same price class and should give some idea of the maximum drop in values that might be expected.

FLUCTUATIONS OF SELLING PRICES OF TYPICAL RESIDENCES

ROY WENZLICK & CO

